UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/50/807
8 December 1995

ORIGINAL: ENGLISH

Fiftieth session
Agenda item 138 (a)

ADMINISTRATIVE AND BUDGETARY ASPECTS OF THE FINANCING OF THE UNITED NATIONS PEACE-KEEPING OPERATIONS: FINANCING OF THE UNITED NATIONS PEACE-KEEPING OPERATIONS

Reform of the procedure for determining reimbursement to Member States for contingent-owned equipment

Report of the Secretary-General

SUMMARY

The General Assembly, in its resolution 49/233 of 23 December 1994, authorized the Secretary-General to proceed with a reform of the procedure for determining reimbursements to Member States for contingent-owned equipment provided to peace-keeping missions, and invited him to examine alternatives similar to the established procedures for compensation to Member States for military contingent personnel.

Two Working Groups, made up of technical and financial experts from Member States, met with Secretariat representatives during the period from March to August 1995 and recommended that reimbursement to troop-contributing countries be made on the basis of a "wet lease", whereby troop-contributing countries would provide major equipment and maintenance, or a "dry lease", whereby troop-contributing countries would provide only major equipment, with the United Nations assuming responsibility for maintenance. The Working Groups recommended that minor equipment and consumables not directly related to major equipment be reimbursed for "self-sustainment" costs based on troop strength. Performance factors were also recommended to ensure that troop-contributing countries performed as per the mandate assigned to them. The Working Groups recommended related reimbursement rates. Reimbursement would be based on the procedures currently in use for reimbursement of monthly troop costs, which take account of the Organization's financial and cash flow situation.

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The Secretary-General supports the leasing and self-sustainment concepts. It is believed that they would provide flexibility both to troop-contributing countries and to the United Nations because the Organization would not be restricted to countries that can fully support themselves. The proposal is also expected to reduce the bureaucratic process by eliminating the current lengthy survey procedures. Troop-contributing countries would become responsible for asset management. Acceptance by the General Assembly of these concepts should not result in additional costs to peace-keeping mission budgets. While there is expectation that some savings are likely to accrue, it is not possible to indicate what they might be in the absence of actual implementing experience.

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I. INTRODUCTION

1. In its resolution 47/218 B of 14 September 1993, the General Assembly requested the Secretary-General to submit a comprehensive report on all issues that affect the successful operation and administration of peace-keeping operations.

2. In his subsequent report to the General Assembly of 25 May 1994 (A/48/945 and Corr.1), the Secretary-General indicated that the procedures for determining reimbursement to Member States for contingent-owned equipment provided to peace-keeping missions had become an overly cumbersome process, both to the United Nations and the contributing countries (para. 82). It was also suggested that the Secretary-General should examine alternatives similar to the established procedures for compensation to Member States for military contingent personnel (para. 83).

3. In its resolution 49/233 of 23 December 1994, the General Assembly authorized the Secretary-General to proceed with the project, in accordance with the proposed timetable set out in the annex to the resolution, aimed at setting comprehensive standards for each category of equipment, as well as establishing rates of reimbursement with the participation of Member States, in particular troop-contributing countries, on the understanding that proposals for establishing new rates of reimbursement would be submitted to the Assembly for approval.

4. The Secretariat undertook to identify as part of phase I of the project items of contingent-owned equipment for consideration as either major or minor equipment by the Phase II Working Group.

5. Under phase II of the project, a working group consisting of technical experts from troop-contributing countries met from 27 March to 7 April 1995 to identify standards for major and minor equipment and consumables for which reimbursement would be authorized. The Working Group reached agreement that a force leasing concept based on a wet/dry lease arrangement should be adopted for mission budgeting, expenditure control and cost reimbursement. It was also agreed to expand the scope of the Working Group's mandate to consider a monthly dollar reimbursement rate linked to troop strength to cover self-sustainment costs. The Working Group agreed that such costs were exclusive of the reimbursement rates approved by the General Assembly in its resolution 45/258 of 3 May 1991 (e.g. the $988 troop cost reimbursement rate). The report of the Phase II Working Group has been distributed as the annex to document A/C.5/49/66 of 2 May 1995. It lays out a series of actions required for discussion in the third phase of the project.

6. As recommended by the Phase II Working Group, an ad hoc working group hosted by the United Kingdom of Great Britain and Northern Ireland and consisting of technical and financial experts from seven troop-contributing countries met with Secretariat representatives in May 1995 to develop rates that could be considered by the Phase III Working Group.

7. Under phase III of the project, a working group of financial experts met from 10 to 20 July 1995 to consider the recommendations contained in the report of the Phase II Working Group (A/C.5/49/66, annex), review the rates of reimbursement proposed by the ad hoc working group and make recommendations for comprehensive standards for which reimbursement would be authorized. The report of the Phase III Working Group has been distributed as the annex to document A/C.5/49/70 of 20 July 1995.

8. The results of the work of the Phase III Working Group were further validated by an ad hoc working group, meeting from 31 July to 4 August 1995, which compared the cost of the proposed system with the current one by using data on 12 contingents from nine countries participating in peace-keeping operations during 1993 and 1994. The results showed that, for the units compared, the proposed system was less expensive to the Organization than the present methodology. The ad hoc working group also compared the proposed generic fair market value with the United Nations Standard Cost Manual and concluded that there were no significant differences. The proposed self-sustainment rates were verified by the Secretariat by analysing survey data from a number of missions. The rates were found to be reasonable.

9. The present report summarizes the recommendations of the Phase II and Phase III Working Groups, addresses the Secretary-General's concerns with their recommendations and makes recommendations for consideration by the General Assembly. The reports of the two Working Groups, which are complementary and should be read together, describe the process of arriving at reimbursement rates and provide recommendations on verification and control of equipment and services provided.

II. SUMMARY OF PROPOSALS AND RECOMMENDATIONS

A. The leasing concept

10. The leasing concept is intended to replace the current survey procedure and depreciation method of reimbursement. The leasing concept provides for an a priori agreement on the components and capabilities of military units put at the disposal of the Organization. Current survey procedures result in largely ex post facto agreements. The concept is divided into two parts: leasing of major equipment and self-sustainment.

11. The leasing concept provides for reimbursement to troop-contributing countries under either the dry-lease or wet-lease arrangement for the usage of major equipment calculated on a monthly basis. Similarly, self-sustainment costs for minor equipment and consumables will be calculated monthly, based on the contingent's deployed troop strength, and will not be subject to accountability upon entry into and departure from the mission area, but rather to verification and inspection to ensure that they meet the agreed standards and mandate of the contingent. Should a contingent bring less major equipment than is agreed, the troop-contributing country will be reimbursed only for actual numbers. Any equipment, personnel and services over and above the agreed numbers are to be provided at the sole responsibility of the Member State and not subject to reimbursement by the United Nations. Reimbursement will be based

on the procedures currently in use for reimbursement of monthly troop costs, which take account of the Organization's financial and cash flow situation.

1. Dry lease

12. The dry-lease arrangement allows a country to provide equipment to a peace-keeping mission, but with the United Nations assuming responsibility for maintaining it. There will be a contractual relationship between the United Nations and the equipment-providing country and, in certain cases, a secondary agreement between the United Nations and the equipment-operating country.

13. The major component of the dry-lease system is an equipment usage charge that compensates contributors for the non-availability to home military forces of contingent-owned equipment while in the mission area. This charge is based on the value of the equipment and its expected useful life, and is increased by a factor varying between 0.1 and 1 per cent to account for "no-fault" incidents to compensate for potential loss or damage incurred while in the mission area.

14. The Secretary-General believes that the main advantages of the dry lease are that it gives the United Nations access to a larger number of troop-contributing countries by not limiting access to those which can provide and maintain their own equipment. The equipment may be operated by either the equipment-providing country or another troop-contributing country. The dry lease also allows the United Nations the flexibility to provide maintenance and spare parts should it choose to do so, for example, when the Organization can provide that service more effectively or less expensively than the troop-contributing country.

2. Wet lease

15. The wet-lease arrangement provides for a contributing country to assume full responsibility for maintaining and supporting deployed major equipment. The country providing the equipment is reimbursed on a fixed monthly rate that includes usage of the equipment, as in the dry-lease rate, but also includes the cost of spare parts and maintenance and associated minor equipment, and an additional 2 per cent to cover resupply transportation costs.

16. The Secretary-General believes that the wet lease is the simplest method for the United Nations to undertake planning, budgeting and administration of contingent-owned equipment, as the troop-contributing countries are responsible for maintenance and sustainment. Verification and control aspects are reduced to accounting for the equipment upon arrival and departure, and to ensuring that it meets the quality standards and performance factors.

17. The Secretary-General recommends approval of the leasing concept of reimbursement for utilization of contingent-owned equipment while employed in peace-keeping operations.

B. Self-sustainment concept

18. Self-sustainment costs relate to minor equipment items and consumables not associated with major equipment, which under the current method are subject to detailed survey and accountability procedures. Under the new proposal, their accounting (inventory) is not required, but rather the United Nations will pay for services rendered according to agreed specific functions and established standards. Self-sustainment costs have been divided into several categories and a rate is proposed in appendix II, section B, of document A/C.5/49/70 for each category and subcategory as applicable.

19. The Secretary-General recommends approval of the self-sustainment method and rates for reimbursement of minor equipment and consumables not related to major equipment. The Secretary-General believes that the reimbursement to Member States for self-sustainment simplifies the current arrangements for logistics support while placing the burden for responsibility and accounting on troop-contributing countries.

C. Preparation of equipment for deployment and redeployment

20. The reports indicate that preparation costs (painting or repainting of national colours on redeployment, United Nations marking, winterization, etc.) do not form part of the leasing arrangement, but will be reimbursed separately. This follows current practice; no change is proposed.

21. The Secretary-General recommends approval of the proposal for reimbursement for preparation of equipment upon deployment and redeployment, which does not involve change from the current practice.

D. Transportation to and from the mission area

22. The current practice according to which the United Nations is responsible for transportation to and from the mission area upon deployment and redeployment remains unchanged. The United Nations can request a troop-contributing country through the letter-of-assist procedure to provide transportation on a reimbursable basis. However, the Working Groups proposed that the party making the arrangements be responsible for loss or damage during shipment, until arrival in the mission area or return to the home country. The responsibility of the United Nations with respect to loss and damage incurred during shipping when the United Nations makes the transportation arrangements is recognized and arrangements are being made to obtain adequate insurance coverage. The Secretary-General recommends approval of the proposal.

23. The Working Groups have recommended that resupply for spare parts and consumables and minor equipment become the entire responsibility of the troop-contributing countries, which are compensated by adding a factor of 2 per cent to the maintenance component of the wet lease and to the self-sustainment rates mentioned in paragraph 18 above. This factor is increased by 0.25 per cent for each completed 500 miles after the first 500 miles along the consignment route between the port of embarkation and the

port of entry to the mission area. The Secretary-General recommends the adoption of this proposal.

24. The proposal also provides for troop-contributing countries to be responsible for all equipment rotation to meet national requirements. This includes rotation required for third- or fourth-line maintenance in the home country. The Secretary-General recommends the adoption of this proposal.

25. The Working Groups requested actual cost reimbursements for all inland transportation. Under the current system, inland transportation to the point of embarkation is not normally reimbursed. The Secretary-General does not support this proposal as the Organization has received claims in which the cost of inland transportation exceeds the cost of shipment from the port of embarkation/disembarkation and the mission areas. The proposal has the potential to add substantial costs to the annual budgets of peace-keeping missions.

26. The Working Groups also recommended that identification be made of one or more ports of embarkation/disembarkation to facilitate transportation arrangements upon deployment and redeployment. The Secretary-General recommends approval of this proposal.

E. Ammunition

27. Troop-contributing countries are responsible for bringing ammunition into the mission area with an expected useful life in excess of the anticipated length of deployment. Under the proposed arrangements, the United Nations would reimburse actual costs of operational ammunition used under the authority of the force commander, but ammunition used for equipment calibration would not be reimbursable as it is considered a consumable item included in the wet-lease maintenance rate of crew-served weapons. Normal training ammunition will continue to be reimbursed under the current arrangements at a rate of $5 per month per soldier. The Secretary-General recommends approval of this proposal as it should result in standardization of procedures and conditions under which reimbursement would be authorized.

F. Model services agreement/contribution agreement

28. The Working Groups agreed that negotiations between the United Nations and the troop-contributing countries are an essential element of the reform and recommended that the Secretary-General develop an agreement replacing the 1991 model agreement (see A/46/185). The agreement is intended to replace not only the current model agreement, but also the current survey procedures. It will describe, inter alia, the composition of the contingent, list the quantity and type of equipment and services, provide for a dispute settlement procedure and form the basis by which monthly reimbursement will be authorized.

G. Loss or damage

29. The Working Groups recommended different arrangements in respect of loss or damage, depending on the circumstances of the loss or damage, the value of the contingent-owned equipment and the type of contingent-owned equipment, that is, major or minor equipment.

1. Loss or damage due to "no-fault" events

30. The Working Groups recommended that the reimbursement rates for usage of contingent-owned equipment should include percentages to cover loss or damage arising from "no-fault" events, such as normal wear and tear, vehicle accidents or theft. Such percentages would vary between 0.1 per cent and 1 per cent of the lease costs for major equipment and of the reimbursement costs for self-sustainment. No claim would be submitted to the United Nations for compensation in these cases. The Secretary-General supports this proposal provided that the percentages are reasonable and fixed.

31. The Working Groups also proposed that, in the event of the United Nations not meeting its full liability under the lease system, total responsibility for loss or damage due to no-fault incidents to contingent-owned equipment and supplies would revert to the United Nations. In this connection, the intention of this proposal was that if the United Nations failed to make payment for usage of contingent-owned equipment in a timely manner, total responsibility for loss or damage due to such "no-fault" events would revert to the United Nations. It is pointed out that this proposal, in addition to exposing the United Nations to an open-ended financial liability, constitutes essentially a penalty against the United Nations that is inappropriate for arrangements between the Organization and its Member States, and could result in the troop-contributing countries receiving double compensation. Thus, for example, should contingent-owned equipment be lost or damaged as a result of a no-fault event, the United Nations responsibility pursuant to this proposal would appear to be to compensate the troop-contributing country for the total value of the contingent-owned equipment, even though the United Nations would already have paid a percentage to cover loss or damage from such no-fault events as part of the usage charge for the contingent-owned equipment. The Secretary-General therefore does not support this proposal and does not recommend its adoption by the General Assembly.

2. Loss or damage to minor equipment, spare parts and consumables due to hostile action or forced abandonment

32. The Working Groups also recommended that the reimbursement rates include a percentage to cover loss or damage due to hostile action or forced abandonment. Such a percentage would be determined by the reconnaissance team at the beginning of a mission, but would not, in any event, exceed 5 per cent of the reimbursement rate for self-sustainment and the spare parts element of the wet lease, and would be universally applied to the mission. The Secretary-General

supports this proposal provided that such percentages are reasonable and fixed for each mission.

3. Loss or damage of major equipment due to hostile action or forced abandonment

33. The Working Groups recommended that the United Nations should only be responsible for compensating troop-contributing countries for loss or damage of major equipment due to hostile action or forced abandonment in respect of each and every item of major equipment valued at $250,000 and above, as well as of major equipment whose collective value is equal to or exceeds $250,000. Troop-contributing countries would bear the responsibility for loss or damage of major equipment up to $250,000 due to hostile action or forced abandonment.

34. The Secretary-General observes that the proposal to include in this compensatable category of major equipment items of a value less than $250,000, which collectively reach and/or exceed the threshold, would seem to negate the proposal of the Working Group that Member States absorb the risk of loss or damage due to hostile action or forced abandonment in respect of such lesser valued equipment. It is further noted that this proposal exposes the United Nations to extensive financial liability and that it would be difficult to make prior estimates on which to base requests for appropriations for compensating Member States for loss or damage of items of major equipment that individually are of a lesser value than the threshold but collectively may exceed it. Moreover, the addition of such items could potentially extend to all major equipment in a particular mission. Therefore, the Secretary-General proposes that any compensatable category of contingent-owned equipment be limited to major equipment valued at or above the set threshold and exclude items of a lesser value that could collectively reach or exceed the threshold.

35. Furthermore, the Secretary-General considers that the United Nations financial liability in respect of this compensatable category of contingent-owned equipment could only be accepted if fixed and reasonable limits of the amounts compensatable by the United Nations, per peace-keeping operation and per contributing Member State, were established. The acceptance by the Assembly of this proposal would enable the determination of the United Nations financial responsibility for such equipment in peace-keeping operations that might involve situations of hostile action and forced abandonment, and would ensure that budgetary provision was already factored in at the mission planning stage to cover possible United Nations liability.

36. The Secretary-General further observes that the terms "hostile action" and "forced abandonment" are too widely defined by the Working Groups (see appendix VI of the report of the Phase III Working Group (A/C.5/49/70)). The definitions of these terms should therefore be reviewed in order to circumscribe their application. In this regard, it is recommended that, at a minimum, the proposed definition of hostile action should omit the phrase "of short or sustained durations". In addition, the definition of forced abandonment should omit the reference to abandonment resulting from "a provision in the rules of engagement which results in the loss of custody and control of equipment and

supplies". If those definitions are so circumscribed, the Secretary-General would be in a position to recommend that they be endorsed by the Assembly.

4. Loss or damage due to negligence or wilful misconduct

37. The Working Groups proposed that any loss or damage of contingent-owned equipment due to the wilful misconduct or negligence of military or civilian personnel of the contributing Member State would be absorbed by that Member State and that no claims would be submitted to the United Nations for such loss or damage. The Secretary-General supports this proposal and recommends its adoption.

5. Special equipment

38. The Working Groups also recommended that the proposed arrangements relating to loss or damage of contingent-owned equipment would not apply to "special equipment", for example, aircraft and vessels. The terms governing such special equipment would be agreed upon separately between the United Nations and the contributing Member State. The Secretary-General supports this proposal and further recommends that such arrangements between the United Nations and the contributing Member State should be on the basis of existing modalities developed by the Secretariat for equipment of a military nature for which it is unlikely that insurance can be obtained.

H. Standards for major equipment

39. The proposed system relies on verification of equipment and services being provided. The reports mention that performance standards for major equipment and its associated minor equipment and supplies are essential so that the United Nations can verify that a troop-contributing country has met its undertakings to provide such material in acceptable operational order.

40. The Working Groups recommended that verification of performance standards be based on a reasonable view whereby the troop-contributing countries and the United Nations should not be penalized when non-performance results from the operational situation in the mission area and where positive steps have been taken towards fulfilment of the agreement. Any dispute would be settled as per the procedure stipulated in the contribution agreement mentioned in paragraph 28 above. The Secretary-General believes that the establishment and verification of standards are essential to ensure that troop-contributing countries meet their obligations. A verification procedure is being developed whereby the United Nations can inspect the equipment provided upon arrival in the mission area and at any time the special representative of the Secretary-General, the chief administrative officer, or force commander believe that a contingent is not meeting its obligations. The same principles would apply to the verification of self-sustainment.

41. The Secretary-General recommends the approval of the principle of performance standards as he believes that the establishment of such standards

would improve the efficiency and effectiveness of the new system as it changes the emphasis from inventory control of contingent-owned equipment to asset management and control. Under the leasing arrangement, responsibility is transferred to the troop-contributing country to ensure the quality and quantity of equipment and services. Should a contingent not meet its obligations, reimbursement will be reduced for the period the standards are not met. For example, should a subcategory of vehicle not be available for a minimum of 90 per cent of the time because of non-serviceability, the reimbursement rate would be adjusted to compensate for that non-availability.

I. Standards For self-sustainment

42. Self-sustainment (self-sufficiency) is defined in the report of the Phase II Working Group (A/C.5/49/66, annex II) as "a logistics support concept for troop contingents in a peace-keeping mission area whereby the contributing country provides some or all logistics support to the contingent on a reimbursable basis".

43. The proposed standards are designed to replace existing reimbursement and survey procedures covering a wide range of equipment and services. They cover each category of self-sustainment and ensure some minimum standards. For example, under catering, a contingent must be able to feed its troops with cold and hot meals in a clean and healthy environment.

44. Under this system, a troop-contributing country is responsible for sustaining its contingent without any United Nations support. Should a contingent not be able to sustain itself, provision is made for the services to be obtained from the United Nations or from another contingent. If another contingent provides the services, the rates would be payable to that contingent. Should a contingent not respect the spirit of the agreement, reimbursement to that troop-contributing country would be reduced by the level of sustainment not being provided until corrective action has been taken.

45. The report of the Phase III Working Group (A/C.5/49/70, appendix II, sect. B) lists the recommended self-sustainment reimbursement rates for each category. These rates are payable for each member of a contingent if services are requested and are provided.

46. The Secretary-General recommends approval of the self-sustainment rates and standards as presented, as it is believed that the establishment of such standards would contribute to the efficiency and effectiveness of the system by leaving the responsibility for asset management to the troop-contributing countries.

J. Mission factors

47. The Working Groups recommended the establishment of environmental and operational "mission factors" to recognize extreme conditions that result in shorter equipment life and increased maintenance costs. These factors would be

determined by the technical survey team at the beginning of the mission and would be subject to subsequent review should circumstances change.

48. The Working Groups recommended that an environmental factor, not to exceed 5 per cent, be added to the lease of major equipment and self-sustainment to account for the increased cost borne by a troop-contributing country for extreme topographical and climatic conditions. It also recommended that an intensified operational condition factor, not to exceed 5 per cent, be added to the same elements to compensate for increased costs resulting from the scope of the task assigned, the length of logistics chains, non-availability of commercial repair and support facilities, and other operational hazards and conditions.

49. The Working Groups indicated that these factors should be universally applied to the mission to allow a force commander the flexibility to redeploy his forces without being hampered by reimbursement considerations.

50. The Secretary-General considers that the suggested environmental and operational factors represent the same hardship conditions in a mission and that they therefore should be combined into one factor only, not to exceed 5 per cent of the reimbursement rates for minor equipment and of the leasing costs for major equipment.

K. Letters of assist

51. The Working Groups recommended an increase in the level of authority for letters of assist from $70,000 to $100,000. The Secretary-General is reviewing the request. That review will take into account the specific requirements and operating circumstances of each individual mission.

III. CONCLUSION

52. The Secretary-General believes that the proposed system will improve the method of reimbursement to troop-contributing countries for their participation in peace-keeping operations. It is believed that the proposal would be more economical to the Organization and would reduce unnecessary bureaucracy. Furthermore, the Secretary-General believes that the introduction of a simplified planning and budgeting process would benefit not only the Organization but also the Member States by providing more transparency and thereby encouraging greater participation in peace-keeping.

53. On the assumption that the General Assembly approves the proposals, the Secretary-General will develop policies and procedures while allowing time for briefing Member States and peace-keeping missions. It is intended that this new arrangement will be implemented on 1 July 1996.

IV. ACTION TO BE TAKEN BY THE GENERAL ASSEMBLY

54. It is recommended that the General Assembly consider the approval of the following principles recommended in the reports of the Phase II and Phase III Working Groups (A/C.5/49/66 and A/C.5/49/70):

(a) The wet and dry lease concept and associated rates;

(b) The self-sustainment concept for reimbursement of minor equipment and consumables and services, and the associated rates;

(c) The policy concerning preparation costs;

(d) The transportation policy for deployment/redeployment, including loss and damage incurred during shipment, except inland transportation;

(e) The transportation policy concerning resupply of contingents;

(f) The identification of one or more ports of embarkation/disembarkation;

(g) The policy for reimbursement of ammunition;

(h) The proposal to include an insurance factor for loss or damage due to no-fault incidents;

(i) The proposal for a mission-approved hostility factor applicable to self-sustainment rates and the spare parts element of the wet lease;

(j) The proposal that the United Nations not be responsible for loss or damage incurred due to wilful misconduct or negligence;

(k) The proposal relating to loss or damage of contingent-owned equipment, except that it would not apply to special equipment;

(l) The proposed standards and verification procedures related to major equipment under the leasing concept;

(m) The proposed standards related to minor equipment and services provided under the self-sustainment concept.

55. It is further recommended that:

(a) The General Assembly not approve the proposal for reimbursement for inland transportation;

(b) The General Assembly not approve the proposal that the United Nations be responsible for compensation for all loss and damage of major equipment due to hostile action or forced abandonment whose collective value equals or exceeds $250,000. Concomitantly, should the General Assembly decide to approve compensation for all loss and damage of major equipment due to hostile action or forced abandonment whose unit value equals or exceeds $250,000, the Secretary-General recommends acceptance of such liability only if fixed and reasonable

limits of the amounts compensatable by the United Nations, per peace-keeping operation and per contributing Member State, were established;

(c) The General Assembly not approve the proposal that in the event of the United Nations not meeting its full liability under the lease system, total responsibility for loss or damage due to no-fault incidents to contingent-owned equipment and supplies would revert to the United Nations;

(d) The General Assembly approve one environmental/operational mission-specific factor not exceeding 5 per cent of the reimbursement rates for minor equipment and of the leasing costs for major equipment.